

## Monthly Economic Update

### Dining in the rain: The new symbol of freedom and optimism

Eating out is the new stuck-at-home eating in. It's a symbol of freedom and optimism. In so many parts of the world, we can smell normality and just like our damp main course, it tastes good.



THINK Economic and Financial Analysis

6 May 2021



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#### US: Racing back to life

- *Unprecedented stimulus has lifted US economic activity to within touching distance of its pre-pandemic levels. President Biden isn't finished with more money on its way to complement a private sector re-opening spending splurge. The result is likely to be an economy that is larger than would have been the case had the pandemic not occurred*
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#### Eurozone: The recession is over

- *With another GDP contraction in the first quarter, the eurozone experienced a double-dip recession. However, as the vaccination campaign gains traction lockdowns can now be gradually lifted, heralding a robust recovery. GDP is still more than 5% below pre-pandemic levels, tempering the current producer price pressures on inflation*
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#### UK: The good times and economic recovery return as Covid-19 recedes

- *Falling Covid-19 prevalence and widespread vaccinations have boosted confidence in the durability of the recovery. Several data points are at post-pandemic highs and that suggests second-quarter growth could hit 5%. Away from Covid, the main risks are politics-related; Brexit disruption is ongoing, while Scottish Independence is back in focus*
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#### China: deleveraging spurred on by recovery

- *China's economic recovery seems to be sustainable, although the high GDP growth number was partly due to the low base effect. Given this background, the government has determined that the economy could deleverage for the rest of 2021. Hopefully this will reduce the overall debt level but the risk is that too-fast a deleveraging could trigger market events*
- 

#### Asia: India - what went wrong?

- *While there is a narrative that talks about double mutations and Indian variants, mass rallies, sporting events and religious festivals probably also played a significant part in the recent acceleration of cases in India. There are very clear lessons to be drawn from this. India may be looking at another lost year for the economy*
- 

#### CEE: Inflation pressures continue to build in central and eastern Europe

- *Inflation pressure is building across central and eastern Europe, particularly in Poland and Hungary. Both central banks are reluctant to tighten; Poland should get away with it but Hungary may be forced to hike. The Czech central bank will likely raise rates in the fourth quarter and we expect CZK, our top pick, to strengthen and HUF to come under pressure*

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### **FX: The normalisation game**

- *FX markets have entered May split down the middle. Outperforming are the commodity currencies enjoying the global recovery cycle and backed by central banks considering tighter policy. Underperforming are the defensive low-yielders, with very distant prospects of rate hikes. The dollar is caught in the middle*

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### **Rates: The bankers relationship between inflation and yields**

- *"Hey neighbour, here's \$100. Give me back \$92 in 10 years and you're good. And don't bother paying me any interest." That's the (real) bond market today, not in the inverted eurozone rates space, but in the US, where perversely there is a macro boom brewing. So why is this? Partly it is well-founded future macro fears. But the here and now should dominate far more*

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### **Commodities are buoyant but supply concerns are still a worry**

- *Metals prices are flirting with record levels, agricultural markets are trading at multi-year highs, and oil has staged an impressive recovery. The post-Covid-19 recovery is clearly bullish for commodities. However, what is less clear is whether we can call this a super-cycle. We remain more comfortable calling it a cyclical uplift*

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### **Central bank update**

- *As many developed markets tentatively begin to emerge from the Covid-19 pandemic, attention is turning to taper and tightening in many economies. Here's what to expect from the major central banks over the coming months*

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### **Biden's promise: Building back better and greener**

- *Of the \$4tn of extra spending proposed by President Biden, \$2.2tn looks set to go on green and sustainability-related infrastructure investment. This won't on its own be enough to deliver on the President's climate change targets, but it marks a clear shift in government policy that can be built upon with regulatory changes and incentives*

Carsten Brzeski  
Rob Carnell  
Padhraic Garvey  
James Knightley  
Petr Krpata  
Iris Pang  
Warren Patterson  
Prakash Sakpal  
James Smith  
Chris Turner  
Peter Vanden Houte

## Dining in the rain: The new symbol of freedom and optimism



The band Blue Pearl wanted to be taken dancing, naked in the rain, possibly in the same spot Fred Astaire was singing. To my knowledge, no one has yet sung about dining in the rain, but surely it's only a matter of time. Eating out is the new stuck-at-home eating in. It's a symbol of freedom and optimism. In so many parts of the world, we can smell normality and just like our damp main course, it tastes good.



Come dine with me

With pubs serving on terraces in the UK and the Netherlands, hopes for more reopenings in Europe in the very near future are now realistic. The vaccination roll-out in the eurozone has also finally gained momentum and are reaching the point that 50% of its population could at least have had one jab come June. This optimism is also reflected in strong confidence indicators, not only in industry but also in the services sector. Add to this the fact that the German Constitutional Court cleared the last hurdle for the European Recovery Fund and the downside risks to the eurozone outlook have disappeared. At least in the near term. Needless to say that not everything in the eurozone is hunky-dory as the fiscal stimulus still falls short compared with the US fiscal packages even with the money from the Recovery Fund. But let's focus on the positives.

Optimism is nothing new to the US economy. It would need a very unpleasant negative surprise for the economy not to already reach its pre-crisis level in the second quarter, which is basically now. A faster and more efficient vaccination roll-out than in the eurozone, a fiscal stimulus package with imminent and direct strong impact on the economy and a fast-recovering labour market will probably let the economy grow twice as much as the eurozone's this year. To quote our James Knightley: "Wowzers, the US economy is hot".

With more economic momentum on both sides of the Atlantic, both central banks will soon have a harder time fending off speculation about tapering or normalising monetary policy than in the first few months of the year. To be clear, we don't expect any policy rate hikes before the end of 2022 (US) and late 2023 (ECB) but discussion on how to enter the exit lane from asset purchases are likely to start soon. Admittedly, it will be a very gradual and cautious exit, but it will be an exit nonetheless.

Before anyone gets carried away with too much optimism, be assured that there are still enough downside risks which should dent any overwhelming enthusiasm. Rob Carnell

has a very interesting piece on the new virus variant in India and what this could mean not only for India but also for the rest of the world. Also, once governments start to withdraw their support measures, a wave of insolvencies with all kind of knock-on effects could still pour over the eurozone economy and other regions.

In any case, in the near term, there are good reasons to become more optimistic. Both for our own well-being and the economy. Personally, I am not fond of dining under an umbrella but like many after endless lockdowns, I'm not so picky anymore. Dining in the rain it is. But unlike Blue Pearl, I'll keep my clothes on. In Europe, a second wave of the coronavirus has led to a second wave of lockdown

## ING's three scenarios for the global economy and markets

### 2021: Virus, vaccines and the reopening

#### ING base case

Assumptions



**Vaccines have a strong impact on transmission**, reducing need for medium-term restrictions



**New Covid-19 variants emerge** but are mitigated by winter booster shots in developed world



**Global travel** increases but remains constrained this year



**EM vs DM split emerges** in reopening ability given differing vaccine rollout pace

**Herd immunity & restrictions**

**United States**  
Most adults will be vaccinated by end-May, allowing a broad re-opening of the US economy in Q2

**Eurozone**  
Vaccine roll-out will gain momentum through Q2, accompanied by gradual reopenings.

**Asia**  
Rollout slow but will speed up over 2H21. Widespread vaccination not likely until 2022

**2021 growth**  
ING forecast

**7.0%**

**4.0%**

**China: 8.6%**  
**Japan: 3.5%**

#### Optimistic scenario



Vaccines overwhelmingly reduce transmission



Full 2Q reopening in US/Europe. Social distancing gone by end of 2021



Vaccines only partially reduce transmission



Restrictions return in 3Q/4Q. Social distancing continues into 2022. Borders tightened

**2021 growth**  
US: 8.6% Eurozone: 4.6% China 8.6%

**2021 growth**  
US: 6.1% Eurozone: 2.9% China 2.8%

### 2022: The full recovery and long-term 'scarring'

#### ING base case

Assumptions



**Unemployment** rises in Europe as wage support ends, but globally jobs market is faster to recover than after the GFC



**US infrastructure** package comes online in chunks. **EU recovery fund** kicks-in in H2 2021/2022 but no additional stimulus



**Global travel** begins to return to normality



**Fed** tapers and signals 2023 rate hikes. **ECB** starts to unwind PEPP but increases APP

**Recovery strength**  
(Growth, jobs, inflation)

**United States**  
A re-opened economy offers more opportunities to spend stimulus cash with employment rising rapidly. Supply constraints mean inflation is likely to be more of a theme than in Europe.

**Eurozone**  
Later reopening delays recovery and muted fiscal stimulus leads to solid but not impressive growth in 2022 and 2023. Inflation falls back to around 1.5% in 2022.

**Asia**  
Massive spike in India, border tightening, 2nd waves and extended/deepened restrictions amidst slow vaccine rollout will dampen bounceback in 2021/22. China keeping Covid-19 controlled

**2022 growth**  
ING forecast

**4.9%**

**3.7%**

**China: 4.6%**  
**Japan: 1.7%**

#### Optimistic scenario



Strong fiscal support (US infrastructure, EZ recovery fund)



Buoyant economies triggers faster jobs rebound than past crises. Hardly any increase in unemployment



Cashflow/wage support extended but recovery/infrastructure plans on hold



Lengthier crisis sees bankruptcies rise, triggering longer-lasting rise in unemployment

**2022 growth**  
US: 5.8% Eurozone: 4.8% China 4.6%

**2022 growth**  
US: 3.1% Eurozone: 2.0% China 5.0%

Note: GDP forecasts have been rounded to nearest whole or half number. Source: ING



## James Knightley

Chief International Economist  
james.knightley@ing.com

# US: Racing back to life

Unprecedented stimulus has lifted US economic activity to within touching distance of its pre-pandemic levels. President Biden isn't finished with more money on its way to complement a private sector re-opening spending splurge. The result is likely to be an economy that is larger than would have been the case had the pandemic not occurred



Swing while you're winning: Joe Biden hotfoots it back to the Oval Office

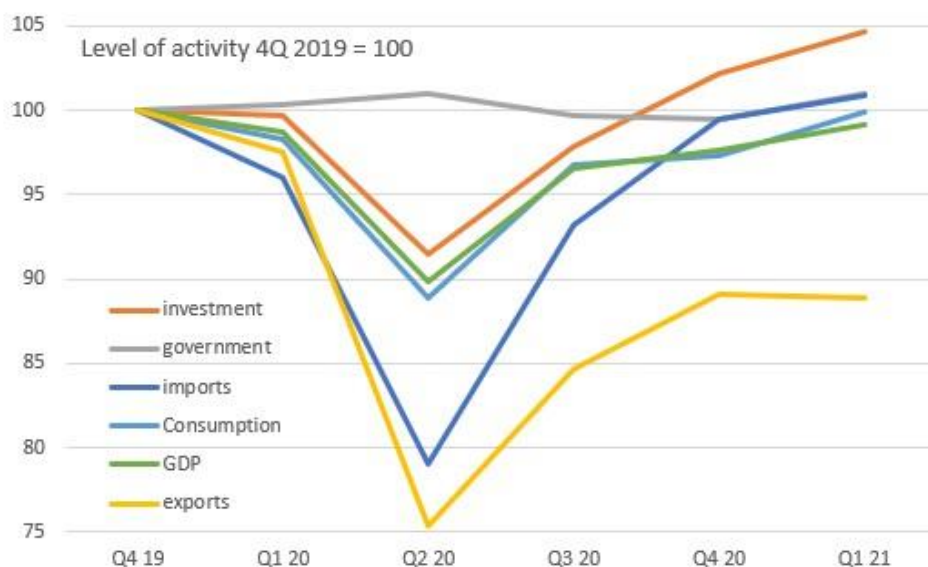
## Almost there

First-quarter GDP growth numbers for the States show the US economy has recovered virtually all its lost output having contracted 10% peak to trough last year. Investment spending is now higher than before the pandemic started thanks to a combination of the red-hot property market leading to a surge in residential construction, while the shift to working from home has seen huge investment in IT infrastructure.

Consumer spending is just 0.1 percentage point below where they were in the fourth quarter of 2019, having fallen 18% between January and April last year. Credit here of course goes to government support efforts - expanded and uprated unemployment benefits and stimulus payments - that means income levels actually rose throughout the pandemic despite millions of people losing their jobs.

Government spending is also higher, but trade remains an overall drag with strong domestic demand sucking in imports while ongoing Covid containment measures overseas and weaker economies mean exports have lagged behind. Inventories have also been run down, which has subtracted from growth.

### Level of real GDP components



Source: Macrobond, ING

### Even better than a full recovery

High-frequency data, be it daily credit and debit card transactions, restaurant diners or air travel passengers, suggests the momentum has continued into the early part of the second quarter.

With 150 million Americans now having at least one dose of the Covid vaccine and hospitalisations and deaths having plunged, the US is on track to be fully re-opened by the end of the summer. This process is already offering a greater range of options on which to spend money and is creating more and more job opportunities, particularly in the hard-hit leisure, hospitality and travel sectors.

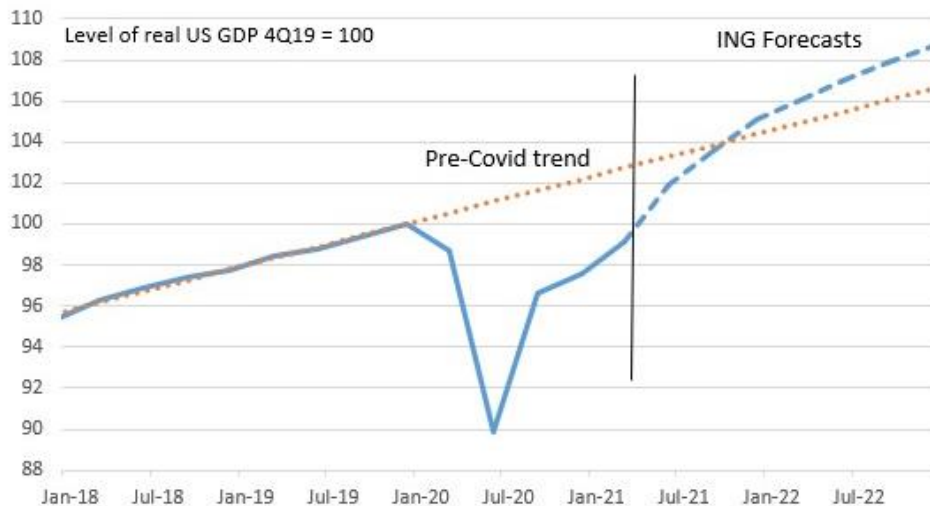
### The US is on track to be fully re-opened by the end of the summer

Consequently, with consumers feeling cash-rich and eager to spend and businesses looking to expand we fully expect the US economy to post double-digit annualised growth in the second quarter. The economy will be further boosted by President Biden's plans to inject another \$2.2tn in infrastructure investment and \$1.8tn of social spending, funded partially by tax hikes on the wealthy and corporates.

Not only will the US have fully recovered all the lost output this quarter, we now forecast the US economy will end the year 2% larger than if the pandemic had not hit and the US economy has merely continued growing at its 2014-19 trend. Given this situation, we are increasingly confident that the US will be back to new all-time highs for employment within the next twelve months.



### GDP to break above pre-pandemic trend



Source: Macrobond, ING forecasts

### Inflation is brewing

The key issue for the Federal Reserve is whether this generates inflation in a meaningful way. For now, they remain sanguine, arguing that there is significant spare capacity in the economy and while there will be “frictions” in the near term that will see inflation temporarily move above target, we shouldn’t be too concerned over the medium term.

We are a little more nervous. We suspect there has been some scarring of the economy’s supply capacity that could mean inflation stays higher for longer; the global semi-conductor shortage is a case in point. Inflation is already evident in commodity prices and freight costs while the producer price report points to growing pipeline price pressures. House prices will also add significant upside risk to CPI over the next 12 months.

We are also starting to see some evidence in the labour market with the employment cost index recently posting its biggest rise in 15 years as home-schooling and expanded unemployment benefits raise the level of employee compensation required to attract workers.

At the same time companies are seemingly more able to pass higher costs onto customers. The National Federation of Independent Business survey reported the strongest intentions to raise prices since the late 1970s and early 1980s. We also know from the ISM reports the backlog of orders are at record highs while customers’ inventories are at record lows – the perfect scenario for the return of corporate pricing power.

### Rate risks are rising

The Fed has made it clear that under their new mandate they are prepared to let the economy run hotter for longer to ensure the recovery is felt by the broadest possible range of people and will tolerate a period of above-target inflation to make sure that happens. However, given our growth, jobs and inflation projections we feel that the Fed will soon need to acknowledge the “substantial further progress:” that would be the trigger for the first steps on the path towards tighter monetary policy.

We expect to see a substantial shift in Fed language at their August Jackson Hole Conference that would pave the way for a December QE taper announcement. With asset purchases likely to be run down to zero within around twelve months this leaves us to favour an early 2023 start point for interest rate rises. In our opinion the risks are more skewed towards an even earlier start point rather than the 2024 date Federal Reserve officials are currently projecting.

# Eurozone: The recession is over

## Peter Vanden Houte

Chief Economist, Belgium, Luxembourg,  
Eurozone  
peter.vandenhoute@ing.com

With another GDP contraction in the first quarter, the eurozone experienced a double-dip recession. However, as the vaccination campaign gains traction lockdowns can now be gradually lifted, heralding a robust recovery. GDP is still more than 5% below pre-pandemic levels, tempering the current producer price pressures on inflation



A few thousand people gathered at an illegal party in Brussels earlier in May. Restrictions are starting to ease

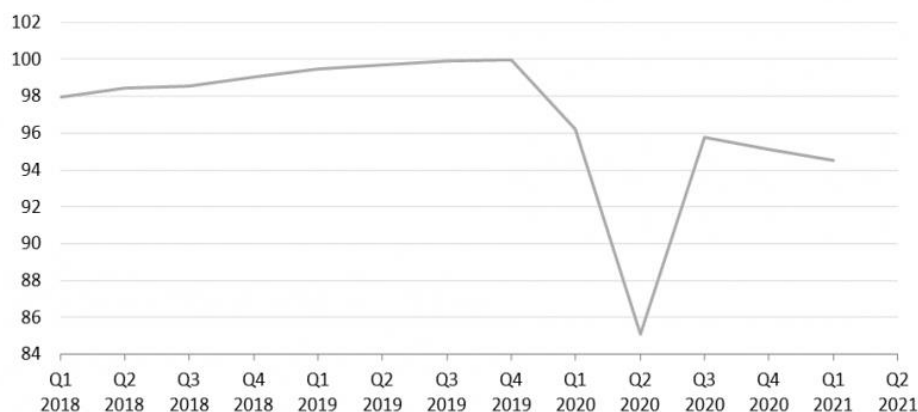
## Double-dip recession

As expected, the eurozone's economy contracted again in the first quarter, this time by 0.6% from the previous three months, making the Covid-19 crisis officially a double-dip recession. However, with the vaccination campaign now finally gaining some momentum, the recovery should start to show up in the real data for the second quarter. To be sure, 2Q still started on a weak footing with lockdown measures being prolonged in many countries. But in most big eurozone countries, a gradual reopening is now foreseen in the course of May, supporting growth. While of course not all households saved more during the pandemic, ING surveys showed that the higher income households did so and that nearly 75% of accrued savings were due to the inability to consume. It therefore looks a safe bet to expect consumption growth to drive the recovery.

## Recovery around the corner

The first sentiment data for 2Q corroborates this story. The European Commission's economic sentiment indicator surged for the second month in a row in April, firmly above its long-term average. Industrial confidence is now at a record high, while sentiment in the service sector surprised with a hefty jump. It is very encouraging to see that all forward-looking indicators are rising. Production expectations in industry reached their best reading on record, while inventories were considered as scarce as ever. Order books and demand expectations, as well as hiring intentions are swelling in all sectors. While the petering out of the government support measures might still lead to an increase in bankruptcies in the course of the year, it doesn't seem warranted to expect a big jump in the unemployment rate. Admittedly, rapidly recovering demand is causing some supply chain problems in manufacturing, potentially hurting production, but this impact is likely to be dwarfed by the reopening of the services sector. We have therefore upgraded our 2Q and 3Q growth forecasts, resulting in a 4.0% GDP growth for the whole of the year. 2022 should still see 3.7% growth.

### GDP still more than 5% below pre-pandemic levels

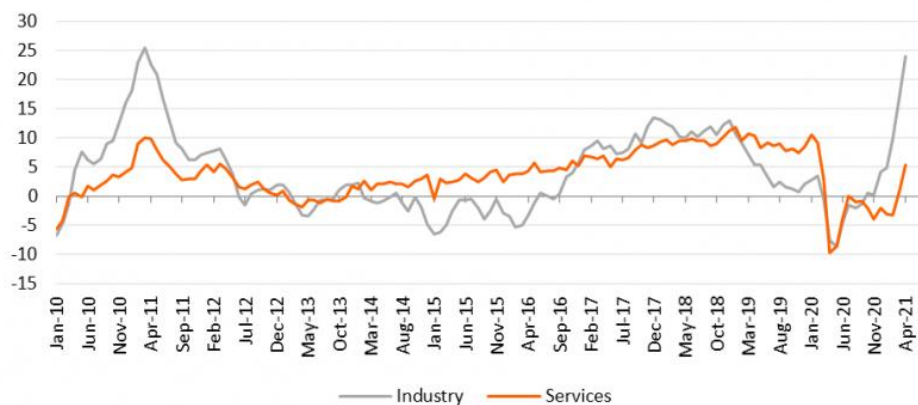


Source: Refinitiv Datastream

### Pipeline inflation pressures

HICP inflation rose, as expected in April to 1.6% YoY on the back of higher energy prices. Core inflation on the other hand fell back to 0.8%. However, there are clearly signs of pipeline inflation: selling price expectations in industry are now close to a record high, but in construction, retail and even the services sector they are now above their long-term average. With strong demand to be expected in the second half of the year and a further inventory build-up in the offing, we doubt that price tensions will disappear quickly. On top of that, the reopening of economic activities that are now closed because of lockdowns will most probably also trigger some price increases. On the other hand, the output gap is still negative and unlikely to be closed before 2023 or even 2024. In that regard, we stand by our scenario of temporarily higher inflation of 1.7% in 2021, falling back slightly to 1.6% in 2022.

### Selling price expectations are rising



Source: Refinitiv Datastream

### Higher bond yields

The inflation profile is unlikely to worry the European Central Bank. The bigger question is at what time the extraordinary stimulus should be taken away and some normalising of monetary policy should start. As the Pandemic Emergency Purchase Programme is closely linked to the pandemic situation it seems unlikely to be prolonged, unless some adverse second round effects show up. That's at least what board member Luis de Guindos seems to suggest: "The normalisation of monetary policy should go hand in hand with the normalisation of the economy. Once the pandemic is over and the economy starts to get back to normal, then obviously monetary policy will also have to start doing the same." That said, we still believe that the monthly Asset Purchase Programme bond purchases could be somewhat increased after PEPP has ended, to

have a smoother tapering profile of quantitative easing. As for policy rates, we don't see them going up before the second half of 2023. However, with our new stronger growth profile we think that the ECB won't stop the 10-year Bund yield from going into positive territory before the end of the year.

# UK: The good times and economic recovery return as Covid-19 recedes

**James Smith**

Economist, Developed Markets  
james.smith@ing.com

Falling Covid-19 prevalence and widespread vaccinations have boosted confidence in the durability of the recovery. Several data points are at post-pandemic highs and that suggests second-quarter growth could hit 5%. Away from Covid, the main risks are politics-related; Brexit disruption is ongoing, while Scottish Independence is back in focus



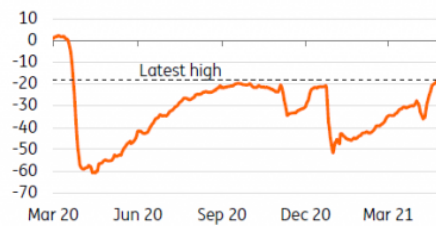
'Controlled' clubbing was back in Liverpool in the north of England, as researchers assessed the risk from coronavirus during the event earlier this month

Pretty much wherever you look, there are signs that the UK economy's long winter is starting to thaw. What's particularly interesting is that several indicators – from the PMIs to transport usage – are now higher than they were last summer, when restrictions were at their pre-second wave low. That's despite the economy having only having partially reopened – shops are no longer closed, but restaurants and bars are only able to operate outdoors.

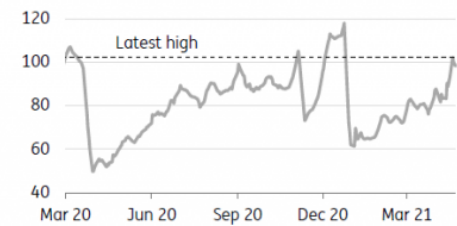
This latest upturn in the data partly just tells us that businesses and consumers are becoming more adept at living with restrictions. First-quarter GDP is likely to be considerably 'less bad' than first feared. But it also reflects growing confidence in the durability of the recovery. For instance, consumer confidence has surged over the past couple of months, helping March retail sales to exceed pre-virus levels even before shops had reopened.

### UK data has begun to outperform last summer's highs

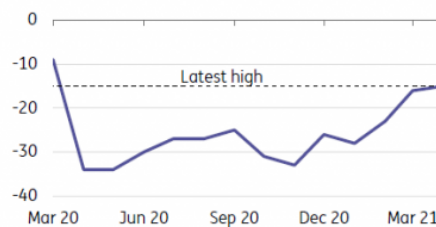
Google Mobility\* (pre-virus=0)



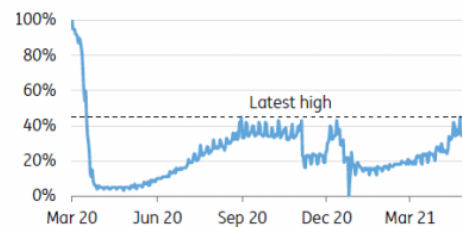
Aggregate card spending (CHAPS, pre-virus=100)



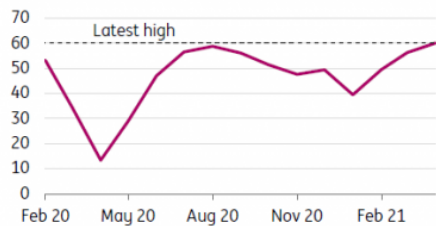
GfK Consumer Confidence (pre-virus = -9)



London Underground usage (pre-virus = 100%)



Services PMI (pre-virus = 53.9)



Job openings (Adzuna, pre-virus=100)



\*ING-calculated composite of retail/recreation, grocery and workplace mobility

Source: Macrobond, ONS, Department for Transport, ING

### Covid-19 has continued to recede in the UK

Of course, whether or not this optimism persists depends on what happens with Covid-19, though for the time being things are looking positive. New cases have continued to fall despite school reopenings in early March and the more recent lifting of restrictions. Encouragingly, recently detected new variants of the virus from overseas have failed to gain a foothold so far – and remember the UK does considerably more genomic sequencing of the virus than any other country (the process that tracks mutations).

Admittedly, the pace of vaccinations has been less exciting over recent weeks. And it's hard to gauge how quickly the programme will move through the under-40s, partly it seems due to a lack of clarity on Astrazeneca deliveries. However, there's no reason to doubt that all adults will have been offered their first dose by the end of July, as the government has promised.

This positive virus situation implies that the next step of the reopening will go ahead, with indoor dining/mixing allowed from 17 May. We expect this to translate into roughly 5% GDP growth through the second quarter, and we think the UK economy won't be far off pre-virus levels by the end of the year – though that's partly because vaccine/Covid testing is now being included in the GDP figures.

### Scottish Independence is back in the spotlight

Beyond Covid-19 and looking to 2022, there are three stories that are worth watching.

Firstly, unsurprisingly, Brexit will continue to weigh on the UK recovery to some extent. While trade flows have partially recovered since January's hit, it's clear that some firms are still struggling under the burden of new paperwork. Don't forget that so far the UK government hasn't actually introduced the bulk of Brexit-related checks/paperwork – that will happen at the start of 2022, which could introduce further challenges for UK firms.



Secondly, attention at the Bank of England is turning towards future tightening, and it's becoming increasingly clear that this process – likely to start in 2023 – will involve some balance sheet reduction (more on this in the central bank article of our monthly).

Finally, the Scottish Independence story has come back to the fore amid Parliamentary elections in the country. While the Scottish National Party is likely to remain in power, either as a majority or some kind of coalition agreement, the road to another referendum is likely to be a long one. Prime Minister, Boris Johnson's government is poised to reject any future request for a second vote on independence, though the issue may well end up in the courts. For now, the polls are back to 50:50 on the issue, though many commentators suspect that repeated rejections of new referendums from London may only succeed in boosting support for independence further.

# China: deleveraging spurred on by recovery

**Iris Pang**

Economist, Greater China  
iris.pang@asia.ing.com

China's economic recovery seems to be sustainable, although the high GDP growth number was partly due to the low base effect. Given this background, the government has determined that the economy could deleverage for the rest of 2021. Hopefully this will reduce the overall debt level but the risk is that too-fast a deleveraging could trigger market events



Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

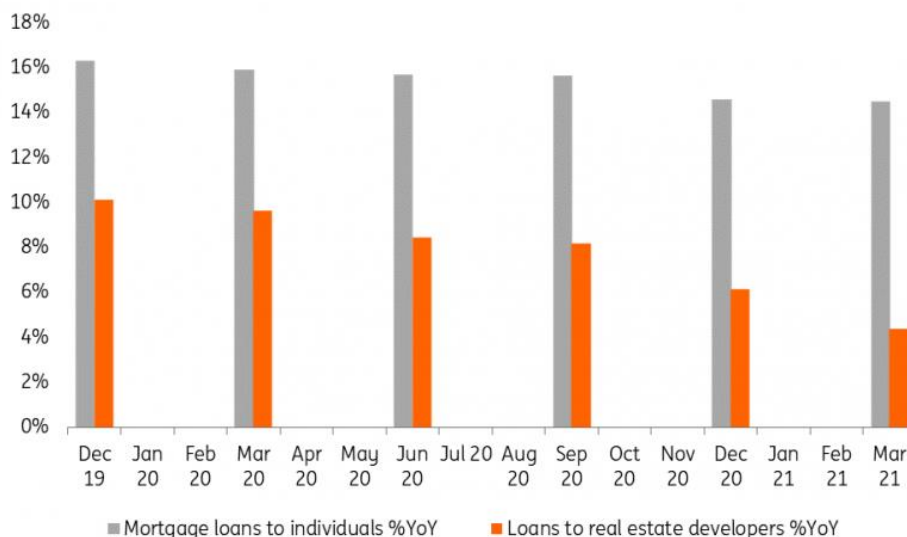
## China achieved some results on deleveraging

China's GDP growth was 18.3% year-on-year in 1Q21. This was partly attributable to the low base from 1Q20 and partly from genuine growth. The government has confirmed that now is a good time to reduce leverage in the economy.

[We have discussed this deleveraging reform](#) for a few months and here is the report card. Loans for real estate development (not individual mortgages) rose 4% year-on-year in 1Q21, slowing from 10% YoY 12 months ago. The individual mortgage growth rate remained at 11% YoY for the 12 months to 1Q21.

As we have emphasised, this deleveraging reform is not to squeeze developers to an unsustainable operating situation but rather to downsize their books and their debt ratios. Loan growth for property developers are much lower than the overall economic growth (4% property developer loan growth vs 18% nominal GDP growth). This will help the overall debt ratio of China to fall as we expect the deleveraging reform will continue for the rest of the year.

### Loans for real estate developers have fallen



Source: CEIC, ING

### The next sector for reform

Fintech is now under reform. This is just the beginning.

There have been at least two parts in terms of the reforms. One is anti-monopoly; this is not just happening in China but also globally. Another is small loan businesses owned by fintechs in China.

But whether this reform will lead to slower growth of small loans taken by individuals and small business owners is in question. If this loan growth does not slow down then this reform would not result in a lower leverage level from the household segment. This may be the case as there is demand for such loans. In fact, the existence of these fintechs is a result of the banks in general not wanting to take high credit risk. The regulator needs to assess how to channel these loans to banks or to let them stay with fintechs but with a bank-like regulatory framework to limit credit risks.

### The willingness to reform shows that the government is optimistic on growth

Reform after reform implies that the Chinese government is confident about the economic situation.

Our view is that GDP will grow by 8.6% in 2021, as domestic consumption will continue to act as a stabiliser for the economy, domestic infrastructure should continue to support growth, and hopefully, export demand improves with Covid vaccinations.

The risks include i) a too-fast reform speed that could create concerns for the market and trigger market events, ii) a chip shortage which is affecting various sectors. China cannot escape this as it manufactures and exports many electronic goods, and iii) the strained China-US relationship, with tensions possibly increasing from time to time. All of this means that we are not as optimistic as the government.

# Asia: India - what went wrong?

## Rob Carnell

Chief Economist & Head of Research,  
Asia-Pacific  
rob.carnell@ing.com

## Warren Patterson

Head of Commodities Strategy  
warren.patterson@asia.ing.com

## Prakash Sakpal

Senior Economist, Asia  
prakash.sakpal@asia.ing.com

While there is a narrative that talks about double mutations and Indian variants, mass rallies, sporting events and religious festivals probably also played a significant part in the recent acceleration of cases in India. There are very clear lessons to be drawn from this. India may be looking at another lost year for the economy



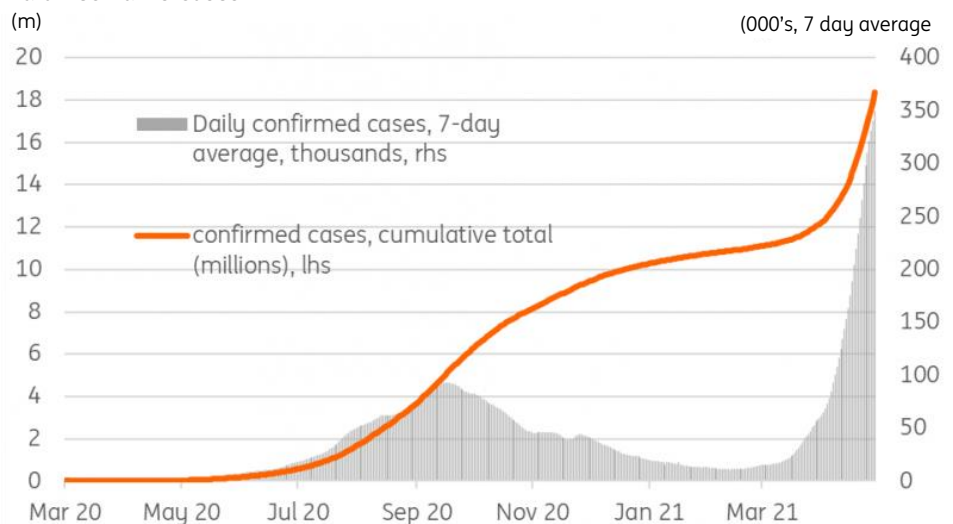
## An important lesson - and not just for India

Only two months ago, India's Covid-19 case numbers were fluctuating somewhere around 10,000 per day. That was substantially lower than many European countries, and with a population of about 1.3 billion, looked a manageable situation.

Today, the figure is closer to 400,000 cases per day and rising rapidly. Three questions worth asking are:

- 1) What went wrong?
- 2) Could this happen elsewhere (and not just in Asia)?
- 3) What does mean for the Indian and global economy?

## Indian Covid-19 cases



Source: CEIC, WHO

### **So what did go wrong?**

There is a lot of talk about the new Indian variant, the so-called B.1.617 strain of Covid-19, as the major factor driving the recent acceleration in new cases and deaths in India. And a number of journalists have been equating additional mutations (double mutations in this case) to greater infectiousness and greater morbidity.

The scientific community is still assessing the data on this new variant, but the evidence supporting the hypotheses above is mixed as are opinions on the matter. Appealingly, the narrative for the new variant hypothesis shifts some of the blame for the outbreak to viral mutations that could not perhaps have been anticipated or prevented. Relative to the number of infections, there has not been a lot of genomic sequencing in India according to some reports. Some reports note that in Maharashtra (one of the worst affected regions), in early April, the B.1.617 variant accounted for only about 15-20% of new cases, though this has most likely risen since then. In other regions (Punjab for example), the UK B.1.1.7 variant was the more prevalent.

What is known, is that this variant has been present in India since late last year. If it was the major factor of the recent spike, like the UK B.1.1.7 variant in parts of Europe (and India), some scientists suggest that it would probably have surged before now.

So if the new variant cannot be ruled in or out as the main cause, what else might be a factor? One possibility might possibly be human actions.

Those of you who, like me, love cricket, may remember the England-India cricket tour at the beginning of February with test matches and T-20 games in Chennai and Ahmedabad, followed by one-day internationals in Pune. More ominous than even the spin-friendly crumbly pitch surfaces was the presence of large, frequently maskless crowds. Spectators were only stopped from 15 March as cases began to rise.

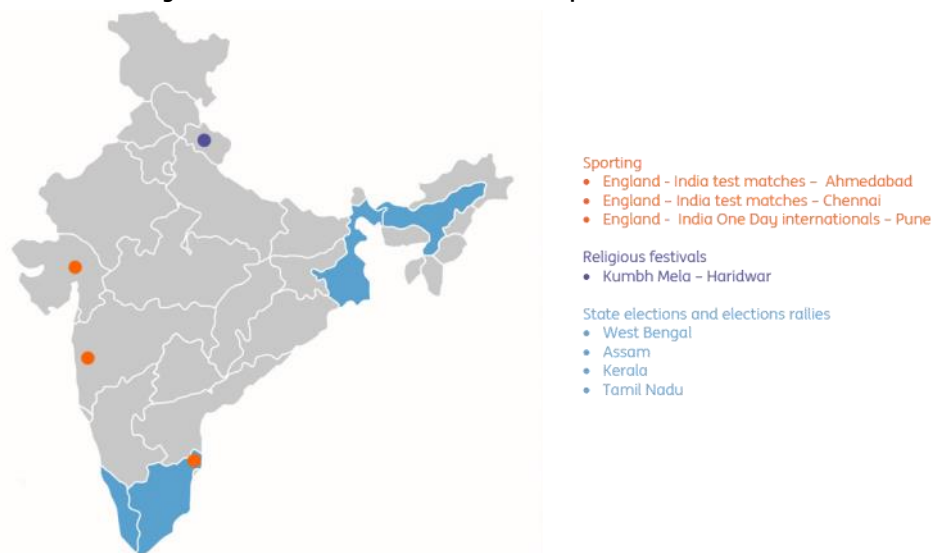
Then, state elections in West Bengal, Assam, Kerala and Tamil Nadu led to large scale political rallies. Lots of people, lots of shouting of slogans, minimal social distancing.

And in addition, the Kumbh Mela religious festival, famous for the millions of attendees over several weeks provided yet another potential infection super-spreading event.

Common to all of these events, whether sporting, political, or religious, was a lack of social distancing, and frequently, a lack of mask-wearing.

It also doesn't help that India's vaccine rollout is not going particularly fast. At about 10 vaccinations for every 100 people currently, India is not the worst in Asia by any stretch, and as a major global producer of vaccines, it has some advantages over some of its neighbours. But from daily vaccinations in excess of 4 million, the daily vaccination tally has recently halved to a little over 2 million. For a population the size of India's, this makes total vaccination unlikely until mid-2022 and in the meantime, leaves it hugely vulnerable to waves like this.

### Events that may have accelerated India's Covid-19 spread



Source: Shutterstock

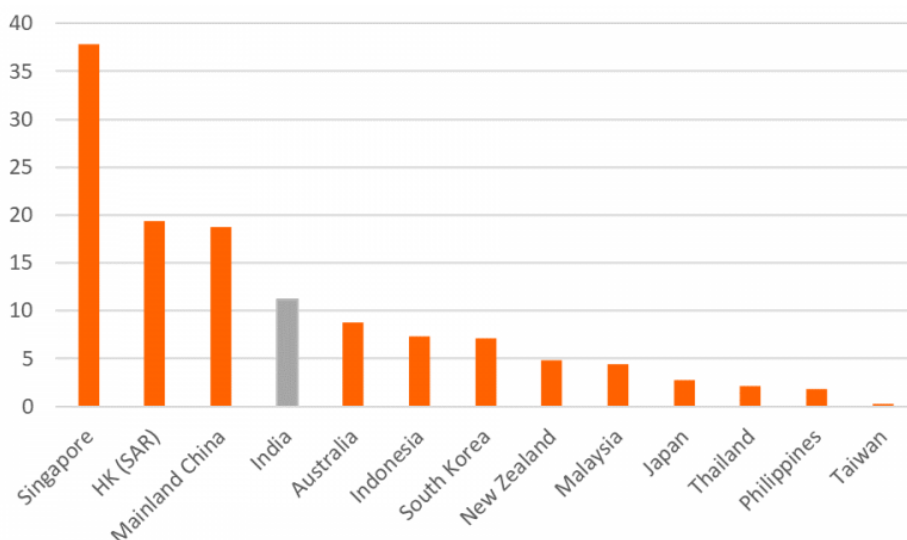
### Could this happen elsewhere?

The short answer to the “Could this happen elsewhere” question, is a resounding “Yes!”. Throughout this pandemic, governments have demonstrated a form of pseudo-scientific nationalism, that has discounted Covid-19 lessons learned from geographic neighbours. “This won’t happen to us” or “we’re different” are views that have been proven wrong time and time again.

With much of Asia having had a fairly light version of the pandemic, the economies of the region are now relatively open. Mask wearing is common, but social restrictions are less onerous than in some other parts of the world. Were there really to be a highly infectious and deadly variant of the Covid-19 virus circulating, it might not take long for it to spread through these populations. Relatively few countries in Asia are substantially better vaccinated than India, and many of them far less.

The slow speed with which many countries shut down travel access with India once India's Covid-19 case numbers began to surge, demonstrates once again that governments in the region and elsewhere are still trying to find a trade-off between economic openness and viral containment. What India demonstrates very amply, is, there is no trade-off beyond a few weeks.

### Vaccinations per 100 population as at 2 May, 2021



Source: Our World in Data



## Economic impacts

We already had an economic outlook for India that was substantially below consensus ([see our latest country deep-dive by Prakash Sakpal](#)). But even that [now looks challenged](#) in the light of unfurling events. Lockdowns are once again being imposed across the country. In time, they will bring down daily cases and hopefully enable India's overwhelmed medical system to cope once more.

But a downside scenario could see India making zero economic progress this year, after the nearly 10% decline in 2020. In terms of the size of the economy, India is the sixth-largest economy in the world. Though in practice, this means that it is only slightly larger than the economy of the UK. At the beginning of the year, India was expected by much of the consensus forecasting community to grow at close to, or above, 10% this year (though base effects are at work in India as everywhere else), so the potential loss of that 10% of growth is about twice as significant as it would be if the UK were to drag sideways this year instead of bouncing as expected.

This could still have impacts on commodity prices. India is the world's third-largest importer of oil, and at about 4.5m b/d of imported oil, accounts for about 10% of all crude oil trade. Currently, oil prices are being dominated by the strength of recovery elsewhere, in particular the US. So at the moment, India's prospective economic weakness looks likely to mainly cap oil price increases, rather than to cause them to fall.

India is also the world's second-largest importer of thermal coal, accounting for about 17% of global trade in this commodity, from suppliers like South Africa, Indonesia, and increasingly, Australia (thanks to China's unofficial ban). India is also the world's fourth-largest importer of LNG, and the second-largest consumer of gold. In 2020, Indian gold demand declined by 35% as a result of Covid-19. At the very least, India's economic problems will take some of the air out of currently very buoyant commodity markets.

Locally, the disruption of the economy by this current wave of infections is leading to price increases, and the Reserve Bank of India's (RBI) 4-6% target range for inflation looks in clear danger of being exceeded. While some see this as an argument for the RBI to tighten policy, we see the opposite as far more likely, with a possibility of a sympathy-based 25bp cut. Not that we think rate cuts will do an awful lot of good, but they won't make matters worse, whereas rate hikes will.

Further fiscal support is also inevitable and India has thus far not been too generous in this regard, aiming most of its fiscal firepower in 2020 at longer-term structural measures – not unhelpful, but perhaps not the emergency support that is needed in times of acute economic stress like right now.

Elsewhere in the region, and also in other parts of the world, such as the Middle East, Indian migrant labour has been a source of cheap labour for decades. But with borders now closed indefinitely, such labour flows will be shut for the foreseeable future. Other sources of labour will need to be located for industries like construction, and these may well be more expensive, adding to the global deflation/inflation story.

Fortunately, India is less critical for global supply chains than China, for example, with its weaker manufacturing base and greater emphasis on the service sector such as outsourced IT support. It's too early to say that globally outsourced service activity like this will not be affected. Clearly, a lot more of such activity can be done from home these days in the event of prolonged lockdowns, but we can't rule out some disruption.

For manufacturing, India was previously looking like a major beneficiary of supply-chain relocation following the trade and technology war between the US and China in recent years. That no longer seems as likely. At least not until the current crisis has passed.

Ironically, one of the main industries in which India operates on a global scale, is pharmaceuticals and life sciences, including vaccines. It is inevitable that more of this locally produced output is diverted for domestic needs in the short term, though this may lead to shortages in supply elsewhere in the world. Right now, India's need is clearly greater than anywhere else, and we would hope that any political fallout from this would be minimal.

Another industry that may suffer is the telecoms industry. India has more than 670 million internet users and is the second-largest global market for smartphones. With increasing local production, that can also be expected to falter in the short term, as people's incomes are undermined by the pandemic and shutdowns.

### **This could happen to you**

Summing up, irrespective of the role of any new variants in India's current situation, India's problems could happen to any country that lets its guard down with respect to social distancing before adequately vaccinating its population. A missed year for economic growth, if that is what we are facing, would be significant for India, but with global growth elsewhere bouncing back hard, it is likely that India's stagnation will be absorbed without too many global ramifications. Likewise, India's relatively light manufacturing industry means it is not as central to global supply chains as many other Asian economies would be, though where it is, pharmaceuticals and life sciences, it may lead to shortages in exactly the areas in which there is the greatest demand.

# CEE: Inflation pressures continue to build in central and eastern Europe

**Petr Krpata**

Chief EMEA FX and IR Strategist  
petr.krpata@ing.com

**Inflation pressure is building across central and eastern Europe, particularly in Poland and Hungary. Both central banks are reluctant to tighten; Poland should get away with it but Hungary may be forced to hike. The Czech central bank will likely raise rates in the fourth quarter and we expect CZK, our top pick, to strengthen and HUF to come under pressure**



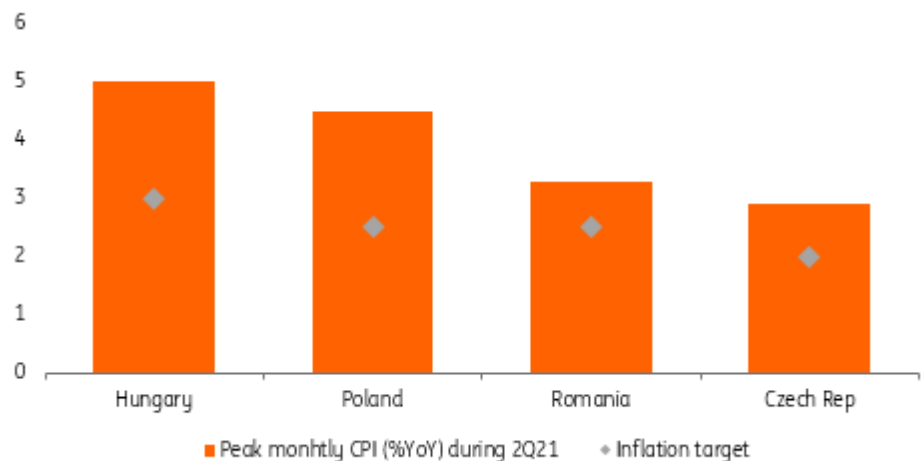
The Prime Ministers of Slovakia, Poland, Czech Republic and Hungary at a 'V-4' summit in Prague last year

## **Poland and Hungary leading the way**

Inflationary pressures are building strongly in the CEE region. Poland and Hungary are both either experiencing or are about to experience a meaningful CPI overshoot versus the target. In Poland, April CPI breached the 4% level while in Hungary April and May CPI readings should be particularly elevated, with the May CPI possibly breaching the 5% mark.

The price pressures are a function of both elevated core CPIs as well as one-off factors, such as the oil price. Neither of the central banks is overly keen to react as they clearly prefer the growth factor over inflation. While we expect the NBP in Poland to get away with it and keep rates on hold (we only expect the first rate hike in H2 2022), we continue to look for the emergency rate hikes from the National Bank of Hungary this quarter as high CPI will depress the Hungarian real rate. That will, in turn, weigh on HUF, the Hungarian forint, and force the national bank to react with FX stabilising hikes. Unlike the Polish zloty (PLN), the forint doesn't benefit from the tailwinds of the current account surplus and is, therefore, more vulnerable.

### CPI is above the target everywhere in the region



Source: ING

With the vaccination process gaining pace both in the CEE region and in the eurozone, its key trading partner, the economic data should see a meaningful improvement in the coming months. Local economies should rebound meaningfully in the third quarter as restrictions ease.

The worst being behind us and rising price pressures should eventually lead the Czech National Bank to hike rates, but the tightening should only come in the fourth quarter; a cautious CNB is likely to err on the side of caution and would want to see the recovery fully underway before tightening. The CNB monetary response should translate into the relative flattening of the CZK IRS curve vs the PLN curve as the CNB will be seen as proactive rather than reactive, while the NBP in Poland will be considered as being behind the curve.

### We favour CZK; HUF not so much

In the CEE FX space, the Czech currency, CZK, remains our top pick to do well as the CNB is getting closer to the fundamentally justified rate hikes. Although this should be a story for the fourth quarter, the CNB should start considering the tightening more vocally in the autumn and this should, in turn, spill over into stronger CZK.

We see EUR/CZK at 25.50 in the second half of this year. Like PLN, the Czech koruna should also benefit from the current account surplus this year (around 2% of GDP), but the zloty is to lag somewhat due to the dovish central bank. In Poland, we expect the Swiss franc mortgage story to have a limited impact on PLN as the CHF/PLN conversion is likely to be done off-market via Poland's central bank, the NBP.

We continue to see HUF as the least attractive currency in the region and expect it to come under pressure (to EUR/HUF 370) this quarter as the real rate will fall. We like RON from the carry perspective (the highest carry in the region) and our view that the usual annual adjustment in EUR/RON higher is now behind us. We expect EUR/RON to stay within the 4.92-93 range in the coming months.

## Chris Turner

Global Head of Strategy and Head of EMEA and LATAM Research  
chris.turner@ing.com

# FX: The normalisation game

FX markets have entered May split down the middle. Outperforming are the commodity currencies enjoying the global recovery cycle and backed by central banks considering tighter policy. Underperforming are the defensive low-yielders, with very distant prospects of rate hikes. The dollar is caught in the middle



The ECB's Christine Lagarde and the Fed's Jerome Powell back in 2019

## In the balance

April saw the dollar hand back nearly three-quarters of the gains it made in the first quarter of 2021. The rationale looked to be some calming at the long end of the US Treasury market, which managed to switch the narrative away from a re-pricing of risk assets and towards recovery stories in the Rest of the World.

*“Commodity FX is leading the charge against the dollar”*

Into May and it is commodity FX that continues to lead the charge against the dollar. It is instructive to see that the currencies performing the best this year are those where

the markets have priced the most monetary policy tightening over the next two years.

Notably, Norges Bank and the Bank of Canada are happy to discuss the timing of output gaps being closed and have allowed tightening expectations to build. In contrast, very little tightening is priced in the eurozone and Japan, and one could say EUR/USD has outperformed based on this tightening metric.

This brings us to the dollar. At the front of the queue when it comes to closing output gaps is the US economy. Yet the Federal Reserve's adoption of a new monetary policy strategy means the link between closing output gaps and tightening policy has been muddled – with the Fed preferring to tighten much later than normal.

As long as the Fed feels comfortable allowing the economy to run hot – and delaying its normalisation cycle – we think the dollar has a window to stay offered. This should allow EUR/USD to benefit from the European recovery story in the second half of 2021 and we retain a scenario of a move to the 1.25/28 region later this year. Such a move would be helped by continued progress on the EU Recovery Fund and perhaps also by the progress of the Greens in the opinion polls ahead of September elections in Germany.

### **A limited window for dollar weakness**

As above, this window for dollar weakening against European FX looks limited. Currently, we would say it is a nine to twelve-month window. Yet this window would snap shut were the Fed to conclude that monetary normalisation should take place earlier than currently priced. The risks certainly seem to lie in that direction, but for the time being the Fed seems to be holding the line and trying to ride out the spike in US activity and prices.

In the event of a hawkish surprise from the Fed and presumably bearish flattening of the US curve, we would have to reappraise our core 2021 view of a benign decline in the dollar. And an early withdrawal of the Fed's punchbowl could certainly prompt some market dislocation and dollar strength against the G10 FX commodity complex and emerging market currencies in general.



# Rates: The bonkers relationship between inflation and yields

## Padhraic Garvey

Head of Global Debt and Rates Strategy/  
Regional Head of Research, Americas  
padhraic.garvey@ing.com

"Hey neighbour, here's \$100. Give me back \$92 in 10 years and you're good. And don't bother paying me any interest." That's the (real) bond market today, not in the inverted eurozone rates space, but in the US, where perversely there is a macro boom brewing. So why is this? Partly it is well-founded future macro fears. But the here and now should dominate far more



No love for a bull run in bonds

## There is zero value in bond markets in a static state. Rates need to fall to generate returns

So US inflation is set to hit 4%, and then eventually calm toward 2%. There are various nuances around this, but that's the central narrative out there. Hitting 4% is not the point of controversy; we are practically there now. The real question is what happens then? Does US inflation remain elevated or does it ease back?

The 3yr implied breakeven inflation estimate (from conventional versus market real yields) is 2.8%; that's an expectation of 2.8% inflation per annum for the next three years. We have not had a run like that in the past couple of decades. Interestingly, both headline and core US inflation have averaged bang-on 2% in the past 20 years. It's been lower in the past 10 years though, with core running at 1.9%, and headline at 1.7%. Those dips below 2% in the past decade provide the Federal Reserve with room for an upside overshoot.

A 2.8% inflation experience over three years would bring the headline average back up to exactly 2% and push the underlying core inflation rate up to 2.2%. These are not extreme outcomes. In fact, they are quite tolerable. But, if that is the outcome, then the big question is what are market rates doing at levels that provide minimal to no inflation protection? The US 30yr swap rate is at exactly 2% right now. That's effectively an extrapolated real yield of zero for 30 years, at best.

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*"The market anticipates inflation running at 2.8% for the coming three years. Over 30 years there is a zero real return"*

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A zero real yield means that actual returns simply equal inflation so that in real terms there is no change in value. It's the equivalent of putting a pile of cash into the ground to be

dug up in 30 years. In an extreme hypothetical zero-inflation environment, the cash today would be worth exactly the same in 30 years. There has been no loss, but there has also been zero return, for 30 years. This is a perfect equivalence to where the US 30yr is currently priced (where the yield is exactly offset by inflation to give a zero real return).

### **Negative real yields are pointing to negative implied returns and there's no protection there**

So why is this? Why are market rates not comfortably above breakeven inflation rates so that an implied positive real return is discounted?

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*“It gets worse: in the 10yr there is a real rate of -80bp (negative). No protection for returns here.”*

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And by the way, it gets even more perverse when we look at the benchmark 10yr yield. Here, there is a negative real yield of -80bp. That is the equivalent of lending your neighbour \$100 on a promise to get \$92 back

in 10 years' time (when adjusted for implied inflation). A deeply negative return. But that is where the market is priced.

This is not an unusual state of affairs for the typical eurozone investor in high-grade government bonds, as these have been trading in negative real territory for years now. But at the same time, the European Central Bank has purposely pitched rates in the negative space. The idea is to generate a super-stimulus through ultra-cheap funding conditions. And it has not been awful for bond market investments as falls in rates have pushed up bond prices, securing reasonable returns; at least up until 2021.

There are two issues here though. First, 2021 is already shaping up to be a big bear market for bonds, as market rates have been revived from Covid-inspired lows (pushing bond prices down). So negative running yields are a double insult. Second, the prognosis for the US is not for negative rates. The Federal Reserve has not gone negative and has no intention of going there. Moreover, there is absolutely no need to go there as the economy is undergoing a post-pandemic boom.

Given that, again, why are we here? Why are market rates not discounting better times? The US 10yr rate is 1.6%. Inflation market expectations in the coming 10 years are running at 2.4%. Hence a -80bp real yield as the economy heads towards a boom.

### **Memories of 2019 are a factor, as is strong demand for fixed income - very supportive**

One simple answer is the market is mispriced. If the US 10yr yield was at, say 2.5%, the negative real yield would be gone. But even there, that just about matches market inflation expectations to leave something close to a zero real yield, i.e. no return. To get some semblance of a return, the 10yr should in fact have a handle of three, and above. But it clearly doesn't.

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*“There are some concerns that the economy can't take higher rates.”*

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But what if the US 10yr went to 2% or 3%? a key question then is, can the market take it? It may seem like a perverse one, but remember that the approach of 2.5% for the Fed Funds

rate at the end of 2018 was enough to see the market start to discount a recession by mid-2019. US real rates in fact dipped negative at that point. And that was before we even had a sniff of Covid. Some of that unease lingers, even as we enter boom-like circumstances. In addition, the drag coming from negative rates in Europe and Japan is also still there. That sense of underlying macro unease has not fully gone away. It remains a viable explanation for the maintenance of resistance to (radically) higher market rates.

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*“And any uplift in market rates is also muted by strong demand for bonds”*

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Then there are technical factors. One key one is the remarkable demand for fixed income (bonds). Our analysis above shows there is little sense to this from a real returns perspective,

especially in a low spread product. But that does not affect one particular big buyer - the Federal Reserve. The ongoing bond-buying programme is a persistent factor keeping market rates under wraps (a part rationale for the policy in the first place).

But it is not just the Fed. US pension funds continue to build their fixed income portfolios, which helps to buffer their underfunded pension positions. In addition, a rump of payers looks at the 10yr above 1.5% as presenting medium-term value. Now throw in corporates that have been using these levels as an opportunity to receive here and swap into ultra-low Fed-impulses funding levels. This all adds up. It's part structural, but there is a transitory effect too, and therein lies its vulnerability.

### **A macro boom should eventually tip the bond market over**

While we respect these circumstances and are monitoring the various drivers closely, we are left with the conclusion that this love affair with ultra-low yields is temporary. It is hard to imagine that we can continue through boom-like conditions with associated inflation risks and not see an eventual ratchet elevation in market rates.

And it need not be a permanent rise. We could well end up getting back to where we are now (or lower) should macro circumstances subsequently disappoint (say in 2022).

But given the risk that this could be the real deal for inflation uplift, it would seem prudent for the bond market to better reflect that risk in the current pricing of yields. We continue to view a 2-handle on the US 10yr as probable. It may take a few months, or it could happen in a flash, but we think we'll get there. After that? We'll cross that bridge when we come to it.

# Commodities are buoyant but supply concerns are still a worry

## Warren Patterson

Head of Commodities Strategy  
Warren.Patterson@asia.ing.com

Metals prices are flirting with record levels, agricultural markets are trading at multi-year highs, and oil has staged an impressive recovery. The post-Covid-19 recovery is clearly bullish for commodities. However, what is less clear is whether we can call this a super-cycle. We remain more comfortable calling it a cyclical uplift



Producing steel in China

## Pedal to the metal

Copper prices are in striking distance of their all-time highs made in 2011, whilst iron ore prices have hit record levels and edging ever closer towards \$200/t. China has been key to the broad-based rally we have seen across the metals complex, with its post-Covid stimulus boosting infrastructure projects, and in turn boosting demand for metals. However, it's not just China where we are seeing a recovery, global demand is making a return as more economies reopen, and downstream sectors restock following the pandemic-induced lockdowns. US plans for a large infrastructure spend have only provided further support to markets, with investment planned to go towards electric vehicle infrastructure, power grids, as well as roads and bridges.

Fundamentals for the bulk of metals are constructive, with recovering demand helping to tighten balance sheets. Visible inventories have generally trended lower, including in China, where we have entered a period of usually stronger demand. However, most metal markets have entered this period of seasonal demand strength with below-average domestic inventories, which has helped to underpin prices.

Supply issues have also become more of a concern for certain metal markets. There were worries over supply risks around copper from Chile, given the latest Covid-19 related restrictions, along with port strikes, although this does not appear to have had much impact on supply. However, it is the steel and aluminium market where there has been a lot more noise around supply. Regional government restrictions within China for the aluminium and steel industry have raised worries over tighter domestic supply, and obviously with China a key consumer of metals, tightness or even perceived tightness has ramifications for the global market.

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*“The greening of the global economy expected to benefit metals' demand”*

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In addition to the constructive short-term fundamentals, the longer-term narrative is also quite bullish, with the greening of the global economy expected to benefit metals' demand.

However, it is in the medium term where we believe we should see a downward correction for most metal prices. If we use copper as an example, the supply picture does start to improve as we move into the second half of this year, which should help to alleviate the tightness we are seeing in the market at the moment, and in fact we see the copper market returning to surplus in 2022.

In addition, the Chinese government has voiced concerns over rising commodity prices, and so the market should not rule out the potential for government intervention in a bid to cool down markets. This could include releasing metals from state reserves or tightening credit conditions.

### **Supply worries push agri markets higher**

Agricultural markets have tightened considerably over the year, and the initial catalyst for this move was strong import demand from China. Having drawn down domestic inventories in recent years, we are seeing China restock, along with increased feed demand as the country's pig herd recovers following the African Swine Fever outbreak. As a result, China is estimated to import a record 28mt of corn in 2020/21, up from almost 7.6mt last season.

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*“Agricultural commodities have also benefited from stronger Chinese demand”*

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Other agricultural commodities have also benefited from stronger Chinese demand, including soybeans, wheat, and sugar. Whether this demand from China is sustainable moving

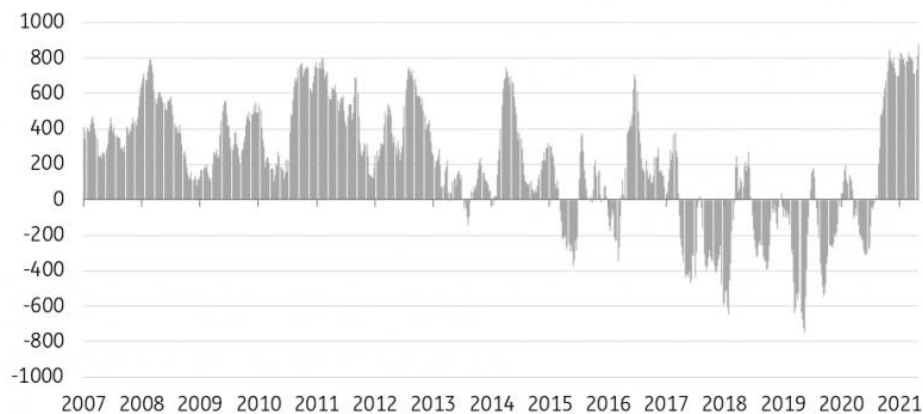
forward is the big question. Domestic corn production in 2021/22 is expected to increase due to higher domestic prices and government policy. Higher corn prices will also see the ratio of corn used in animal feed drop. The USDA forecasts that Chinese corn imports in 2021/22 will fall to 15mt, still high on a historical basis, but quite a drop from the current marketing year estimate.

Supply concerns have coincided with this stronger Chinese demand. If we look to South America, drought conditions have weighed on the outlook for several crops. Brazil's second corn crop this season is facing downgrades because of dry conditions. Brazil is also set to see a decline in sugar output from the Centre South region, with weather weighing on yields, and this follows poor sugar crops from Thailand and the EU in the 2020/21 season.

However, we are in the US planting season, and given the strong price environment for corn and soybeans, we are likely to see farmers increase acreage significantly for the 2021/22 marketing year. This should help relieve some of the tightness we are seeing in the market later this year (assuming we have normal weather conditions over the summer), which should see prices trend lower from these elevated levels.

Positioning data, particularly for corn shows that the market is very long at the moment, and so the risk is that if we do see a bearish catalyst in the coming months, such as much larger corn acreage in the US, we could see a fair amount of speculative money liquidating.

**Speculative net long in agricultural commodities at historical highs (000 lots)**



Includes CBOT Wheat, CBOT Corn, CBOT Soybeans, ICE Sugar No.11, ICE Arabica Coffee, ICE US Cocoa  
 Source: CFTC, ING Research

**Oil likely to play little role in a potential super-cycle**

Oil markets have been mostly rangebound over the last month, with ICE Brent struggling to break above US\$70/bbl. There are several factors which appear to be holding the market back for the moment. OPEC+ is set to increase output by 2.1MMbbls/d over the next three months. Iran has been increasing output for much of this year, despite US sanctions, and this is a trend which is likely to continue for the remainder of the year, regardless of whether we see a quick lifting of sanctions or not. Then, the latest Covid-19 wave across India is a big worry for the oil market, given it is the third-largest oil consumer in the world. Therefore there are concerns that if the situation deteriorates further, we may see a significant hit to global demand.

*“The biggest downside risk is if oil demand does not recover quickly”*

However, we continue to believe that prices will edge higher as we move through the year, and still expect that ICE Brent will average US\$70/bbl over the 2H21. Despite rising OPEC+

output, and also accounting for larger Iranian supply, the market is still set to draw down inventories throughout the year. Obviously, during these uncertain times, the biggest downside risk for the market is if oil demand does not recover as quickly as many in the market are anticipating.

We believe that oil will play little role in any potential super-cycle, firstly OPEC+ is still holding off almost 5.8MMbbls/d of supply from the market, even after accounting for the production increases we should see over the next three months, and so if the market rallies too much, we would likely see OPEC+ ease cuts at a quicker pace. In addition, and more of a medium- to long-term cap for the oil market, is that stronger prices will only see increased drilling activity from the US. So, if we are going to see a super-cycle, the commodities complex will have to rely on metals and agriculture.



# Central bank update

As many developed markets tentatively begin to emerge from the Covid-19 pandemic, attention is turning to taper and tightening in many economies. Here's what to expect from the major central banks over the coming months

## James Knightley

Chief International Economist  
james.knightley@ing.com

## Carsten Brzeski

Global Head of Macro  
carsten.brzeski@ing.de

## Iris Pang

Economist, Greater China  
iris.pang@asia.ing.com

## James Smith

Economist, Developed Markets  
james.smith@ing.com



The ECB's Christine Lagarde and the Fed's Jerome Powell back in 2019

## The outlook for central banks

### European Central Bank

With an accelerating vaccination roll-out, it will be increasingly hard for the ECB to label any increase in bond yields as 'unwarranted'. In fact, discussion on when/how to taper will gain momentum. An extension of the PEPP programme beyond March 2022 looks increasingly unlikely. However, the ECB will want to avoid any abrupt end to net asset purchases. That could mean gradually ending asset purchases under PEPP, while increasing the old APP.

### Federal Reserve

The US is re-opening with jobs being created in significant numbers and the economy forecast to grow 7% this year. Inflation pressures are mounting with emerging evidence of rising labour costs. The Fed's mandate change means that they are prepared to tolerate an inflation overshoot in order to ensure the recovery is felt as broadly as possible in society, but given the vigour of the rebound we expect a first rate rise in early 2023 rather than 2024 as the Fed is signaling

### Bank of Japan

The most notable announcement from the BoJ has been to state that there will be no significant change to the monetary policy framework, until after Governor Kuroda steps down in 2023, and perhaps not even straight after. That will extend the recent inaction.

### Bank of England

Tapering over coming months will give way to talk of balance sheet reduction alongside future rate hikes. While neither are likely before 2023, Governor Bailey has hinted that reducing the Bank's pool of bonds will play a role in a future tightening cycle.

### China (PBoC)

We don't expect changes to the 7D, 1Y and 5Y policy rates or RRR. Even imposing targeted RRR cuts, which the market is looking for, is unlikely given ongoing deleveraging reforms, while external demand is yet to fully recover given travel restrictions.

### Bank of Canada

The BoC have tapered their weekly asset purchases a second time and signaled they think inflation will consistently hit the 2% target next year. With the economy and jobs bouncing back strongly we now expect interest rates will be raised late next year.

### Reserve Bank of Australia

The RBA has just held their May rate setting meeting, and left all aspects of their monetary policy unchanged. The statement notes that the July meeting may be used to take decisions on whether to shift the target 3Y bond, or whether to extend bond purchases.

### Reserve Bank of New Zealand

After being told in February to take the housing market into consideration when setting policy, the RBNZ has stuck with its cash rate, but QE purchases have been trimmed back from an initial \$630m weekly rate to only \$320 in the last few weeks, and could fall further. .

### Riksbank

Sweden is likely to be one of the last to begin normalising policy. Despite economic resilience over recent months, inflation is unlikely to take-off. The Riksbank's projections contain no rate hikes right before/during 2024.

### Swiss National Bank

The SNB is expected to keep rates unchanged at -0.75% and continues to use FX intervention to limit the appreciation of the franc, which is still considered as "highly valued". Fortunately, deflation is limiting FX pressure, making the SNB's task easier.

### Norges Bank

NB is re-establishing itself as a hawkish outlier, with a rate hike likely in the second half of the year (possibly as early as Sept.). Higher oil prices and global bond yields, alongside recovery hopes, are driving this hawkish view.

Source: ING

## Federal Reserve

With the US economy set to return to pre-pandemic levels of activity in the current quarter and, by the end of the year, exceed the level of output had there been no



pandemic, and the economy had merely continued at its 2014-19 growth trend, this has to raise concerns about potential inflation. The government has already pumped in \$5tn of stimulus, and with another \$4tn of infrastructure and social spending on its way on top of a rebound in consumer and business spending, we think the risks are skewed towards higher and more persistent inflation readings.

Indeed, there are near-term supply constraints, but with jobs also being created in significant numbers, the economy's spare capacity is being eroded, particularly given the pandemic has led to scarring in many sectors. The Fed has made it clear they are prepared to tolerate an inflation overshoot to ensure the recovery is felt as broadly as possible in society, but given our growth outlook, we think the Fed will soon be forced to bring their guidance on the first-rate hike forward. They are currently suggesting that it could be up to three years before the first move, but we suspect it will end up being early 2023.

### **European Central Bank**

After the ECB successfully fended off higher bond yields on the back of spill-over effects from the US and higher headline inflation in the eurozone, a new challenge is looming in the summer. With an accelerating vaccination roll-out and some 50% of the eurozone population having had at least one jab by June, it will be hard to label once again any increase in bond yields as 'unwarranted'. In fact, we see the discussion on when and how to taper gaining momentum in the coming months.

An extension of the PEPP programme beyond March 2022 looks increasingly unlikely with the current vaccination and economic backdrop. However, the ECB will want to avoid any abrupt end to net asset purchases. In our view, it will do its own operation twist: gradually ending asset purchases under the PEPP while increasing them under the old APP.

### **People's Bank of China**

Our view remains that the People's Bank of China will keep its current monetary policy stance unless there are significant changes in the market.

The Chinese economy is undergoing deleveraging reforms, particularly in the real estate sector, and relaxing the monetary policy would contradict this process. But tightening of the current stance – the 7D policy rate at 2.2% and 1-year loan prime rate at 3.85% – when export demand is fragile is also equally unlikely. If anything triggered a change in monetary policy, it would be a rapid deleveraging process that creates market volatility.

The central bank would have to step in to relax liquidity temporarily. That could be probably a targeted RRR cut for environmental protection projects and the agricultural sector. But even then, the probability is small as the central government is very cautious and is adopting a gradual approach to the deleveraging process.

### **Bank of Japan**

10-year Japanese government bonds currently yield close to 0.1%, higher than the Bank of Japan's 0.0% target, but within its +/- 0.25% tolerance band.

In recent weeks, the central bank has refrained from buying ETFs. At its latest meeting, on 27 April, it projected the economy to grow at 4% for the year through to March 2022, but expected core inflation of only 0.1% and does not project that the target rate of 2% will be reached until after 2023 when Governor Kuroda steps down.

The Bank of Japan has also stated that the monetary framework will not be significantly altered until after Governor Kuroda has left, all of which implies that the current -0.1% target on cash rates will not be changed and that any changes in qualitative and quantitative easing (QQE) policy will be unofficial with official targets remaining unchanged.

### Bank of England

With green shoots appearing across the UK economy, further Bank of England stimulus looks unlikely, barring any Covid surprises. That means attention is quickly turning to future tightening, and what's becoming increasingly clear from officials is that this is likely to involve a mix of interest rate hikes and balance sheet reduction. Unlike the Fed, the BoE never got around to this in the post-GFC years. But under Governor Andrew Bailey, the Bank looks poised to shrink its bond holdings, partly due to the BoE's ever-increasing market share it owns.

In practice, this could involve setting an annual target, which could see the Bank's gilt holdings reduced via reduced reinvestments of maturing bonds. A £30-40bn annual reduction looks achievable – anything more may require active selling, which we think is initially less likely.

That all said, with inflation likely to present less of a threat than in the US beyond this year, we doubt any of this will happen before early-2023

## James Knightley

Chief International Economist  
james.knightley@ing.com

# Biden's promise: Building back better and greener

Of the \$4tn of extra spending proposed by President Biden, \$2.2tn looks set to go on green and sustainability-related infrastructure investment. This won't on its own be enough to deliver on the President's climate change targets, but it marks a clear shift in government policy that can be built upon with regulatory changes and incentives



US President Biden hosted a global summit on the environment in April

## In search of a more equitable, sustainable and greener America.

Between them, Presidents Trump and Biden have overseen \$5tn of fiscal stimulus. A remarkable amount of money that has undoubtedly helped to mitigate the effects of the pandemic on America's economy. With the vaccine roll-out making good progress, more and more businesses are re-opening their doors and jobs are returning in their droves.

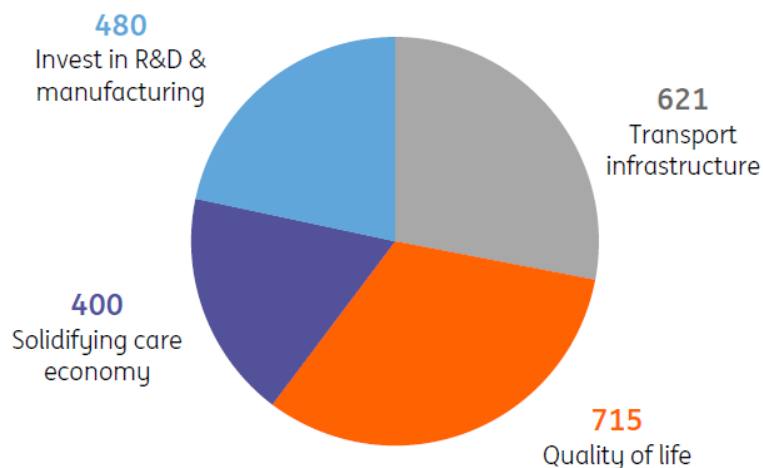
Given these developments, Joe Biden is now able to push on with his key election promise of "Building Back Better" as he seeks to fulfil his vision of a more equitable, sustainable and greener America.

Having already re-joined the Paris Climate Accord, the President recently hosted a virtual World Leader Climate Summit where he committed the US to even stricter emission [targets](#). This requires huge change in the way the US fuels its economy and makes up the largest aspect of Biden's new infrastructure investment plan, titled the [America Jobs Plan](#).

## Biden seeks a lot of bang for each buck

Put in the context of the \$5tn already spent, this \$2.2tn package spread over the next eight years may feel a little underwhelming, especially given the targets he has set. The President is undoubtedly seeking a lot of return on each dollar spent with promises on carbon neutrality, high-speed broadband for all and major healthcare changes. We outline the package in detail [here](#).

**The \$2.2tn American Jobs Plan**



Source: [www.whitehouse.gov](http://www.whitehouse.gov) / ING

Certainly not all the money is going on what might be termed “traditional” physical infrastructure spending projects. For example, of the \$621bn allocated to transport infrastructure, \$174bn is put towards electric vehicles and a network of 500,000 charging points. Much of the money will be allocated towards “point of sales rebates and tax incentives to buy American made electric vehicles”.

Likewise, the \$400bn for solidifying the care economy is effectively current spending. It is “expanding access to quality, affordable care [ by] creating new jobs and offering caregiving workers a long-overdue raise, stronger benefits and opportunity to organize or join a union and collectively bargain”.

As such, the definition of “investment” is broad with much of we would term “investment in opportunity”, including money set aside for training. This can in itself boost economic performance if it helps to both raise productivity and labour force participation.

**Not everyone likes it...**

The plan does have its fair share of detractors with opponents disliking the mix of spending while the business community is not overly enamoured given the corporate tax hikes that are coming to fund it. Amendments could yet come as the President tries to get enough support in Congress.

There are also valid questions about how effective the plan will be in transitioning America away from fossil fuels. There is the obvious argument that implementing bolder European levels of gasoline taxes could accelerate the adoption of electric vehicles, but that has not been included.

**A stepping stone to a greener future?**

That said, this is just the start of the US shift towards a more sustainability-orientated economy with forthcoming regulatory changes likely to give an extra nudge to reluctant adopters both at home and abroad.

Proposals to link trade deals to climate and environmental commitments with penalties for non-compliance were included in Biden's election manifesto although his climate envoy, John Kerry, recently suggested this is a last resort option. Nonetheless, keeping this potential threat up his sleeve could be a huge motivator for other countries to come on board given the US imported \$2.33tn of goods in 2020. Inducements, such as “Green debt relief” for developing countries that make and meet climate commitments could broaden and accelerate the adoption of more climate friendly production policies around the globe.

**ING global forecasts**

	2021					2022					2023				
	1Q21	2Q21	3Q21	4Q21	FY	1Q22	2Q22	3Q22	4Q22	FY	1Q23	2Q23	3Q23	4Q23	FY
<b>United States</b>															
GDP (% QoQ, ann)	6.40	11.60	6.80	5.80	7.00	3.90	3.60	3.10	2.90	4.90	3.00	3.00	2.90	2.90	3.00
CPI headline (% YoY)	1.90	4.10	3.70	3.80	3.40	3.50	2.70	2.70	2.60	2.90	2.70	2.60	2.50	2.50	2.60
Federal funds (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.00
3-month interest rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.60	0.60	0.90	1.20	1.20
10-year interest rate (% eop)	1.74	2.00	2.00	2.25	2.25	2.25	2.50	2.50	2.75	2.75	2.75	3.00	3.00	3.00	3.00
Fiscal balance (% of GDP)					-14.20					-8.40					-5.10
Gross public debt / GDP					104.10					104.90					104.30
<b>Eurozone</b>															
GDP (% QoQ, ann)	-2.40	5.80	7.80	5.30	4.00	2.80	2.00	1.90	1.60	3.70	1.90	1.60	1.30	1.40	1.70
CPI headline (% YoY)	1.00	1.70	2.20	2.00	1.70	1.70	1.60	1.40	1.50	1.60	1.60	1.60	1.60	1.60	1.60
Refi minimum bid rate (% eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (% eop)	-0.55	-0.55	-0.50	-0.50	-0.50	-0.50	-0.45	-0.40	-0.40	-0.40	-0.40	-0.30	-0.30	-0.20	-0.20
10-year interest rate (% eop)	-0.35	-0.10	0.00	0.20	0.00	0.20	0.25	0.25	0.30	0.30	0.30	0.40	0.50	0.50	0.50
Fiscal balance (% of GDP)					-6.40					-3.90					-2.90
Gross public debt/GDP					104.10					101.70					100.70
<b>Japan</b>															
GDP (% QoQ, ann)	0.20	2.40	2.60	2.40	3.50	1.20	0.90	1.10	1.80	1.70	1.20	1.20	1.20	1.20	1.30
CPI headline (% YoY)	-0.40	-0.20	0.00	0.70	0.00	0.60	0.80	0.60	0.60	0.70	0.60	0.60	0.60	0.60	0.60
Interest Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
3-month interest rate (% eop)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
10-year interest rate (% eop)	0.10	0.10	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fiscal balance (% of GDP)					-9.60					-8.70					-7.50
Gross public debt/GDP					228.70					232.50					237.50
<b>China</b>															
GDP (% YoY)	18.30	5.50	5.00	5.50	8.60	3.00	5.00	5.50	5.00	4.60	4.80	4.60	4.40	4.20	4.50
CPI headline (% YoY)	-0.10	1.00	1.40	2.50	1.20	2.50	2.00	2.40	2.50	2.40	1.80	2.60	1.90	1.80	2.00
PBOC 7-day reverse repo rate (% eop)	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
3M SHIBOR (% eop)	2.64	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.70	3.70
10-year T-bond yield (% eop)	3.19	3.25	3.35	3.40	3.40	3.45	3.55	3.65	3.70	3.70	3.70	2.80	3.90	4.00	4.00
Fiscal balance (% of GDP)					-6.00					-4.00					-4.00
Public debt (% of GDP), incl. local govt.					115.00					118.00					121.00
<b>UK</b>															
GDP (% QoQ, ann)	-5.5	21.4	8.5	3.8	6.8	2.7	2.6	1.8	1.5	4.5	0.9	0.3	0.7	1.1	1.1
CPI headline (% YoY)	0.6	1.7	1.8	2.2	1.6	2.3	1.8	1.8	1.7	1.9	1.6	1.6	1.7	1.7	1.7
BoE official bank rate (% eop)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.25	0.25	0.5	0.5
3-month interest rate (% eop)	0.00	0.00	0.10	0.15	0.15	0.20	0.20	0.25	0.30	0.30	0.40	0.40	0.60	0.70	0.70
10-year interest rate (% eop)	0.80	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.30	1.30	1.30	1.50	1.50	1.50	1.50
Fiscal balance (% of GDP)					-12.9					-8.2					-4.0
Gross public debt/GDP					112.00					115.00					117.00
<b>EUR/USD (eop)</b>	1.18	1.22	1.25	1.28	1.3	1.28	1.25	1.23	1.22	1.22	1.22	1.21	1.20	1.20	1.20
<b>USD/JPY (eop)</b>	108	108	108	108	108	108	109	110	110	110	111	112	113	115	115
<b>USD/CNY (eop)</b>	6.54	6.48	6.40	6.30	6.30	6.25	6.20	6.15	6.10	6.1	6.05	6.00	5.95	5.90	5.9
<b>EUR/GBP (eop)</b>	0.85	0.85	0.85	0.85	0.85	0.84	0.83	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82
<b>ICE Brent -US\$/bbl (average)</b>	61	67	70	70	67	68	70	73	70	70	70	75	78	75	75

GDP forecasts are rounded to the nearest whole/half number, given the large magnitude and uncertainty surrounding our estimates

Source: ING forecasts

ING's forecasts under three different scenarios

	2021					2022					2023				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
<b>Scenario 1: Optimistic scenario</b>															
<b>Real GDP growth (QoQ% annualised)</b>															
United States	6.40	18.20	9.10	7.00	8.60	4.30	3.50	3.00	3.00	5.80	3.00	3.00	3.00	3.00	3.00
Eurozone	-2.40	7.50	9.40	6.60	4.60	4.90	2.40	1.90	1.60	4.80	1.80	2.20	1.80	1.80	1.90
China (YoY%)	18.30	5.50	5.00	5.50	8.60	3.00	5.00	5.50	5.00	4.60	4.80	4.60	4.40	4.20	4.50
Japan	0.20	2.20	3.50	3.90	3.70	2.80	1.40	1.00	1.50	2.50	1.20	1.20	1.20	1.20	1.20
United Kingdom	-4.80	25.20	13.80	3.40	8.20	1.00	1.30	1.10	1.50	4.40	1.00	-0.10	0.50	0.90	0.80
<b>Real GDP level (Indexed at 4Q19=100)</b>															
United States	99.11	103.34	105.61	107.41	-	108.55	109.49	110.30	111.12	-	111.94	112.77	113.61	114.45	-
Eurozone	94.46	96.18	98.36	99.95	-	101.15	101.75	102.23	102.64	-	103.10	103.66	104.12	104.59	-
Japan	99.02	99.56	100.42	101.39	-	102.09	102.45	102.70	103.08	-	103.39	103.70	104.01	104.32	-
United Kingdom	91.56	96.86	100.04	100.88	-	101.13	101.45	101.73	102.11	-	102.37	102.34	102.47	102.70	-
EUR/USD	1.18	1.25	1.30	1.28	-	1.25	1.22	1.20	1.15	-	1.15	1.15	1.12	1.10	-
US 10-year yield (%)	1.74	2.50	2.50	2.75	-	2.75	3.00	3.00	3.25	-	3.25	3.50	3.50	3.50	-
<b>Scenario 2 – ING base case</b>															
<b>Real GDP growth (QoQ% annualised)</b>															
United States	6.40	11.60	6.80	5.80	7.00	3.90	3.60	3.10	2.90	4.90	3.00	3.00	2.90	2.90	3.00
Eurozone	-2.40	5.80	7.80	5.30	4.00	2.80	2.00	1.90	1.60	3.70	1.80	1.60	1.30	1.40	1.70
China (YoY%)	8.00	5.00	4.50	5.00	5.60	3.00	5.00	5.50	5.00	4.63	4.80	4.60	4.40	4.20	4.50
Japan	0.20	2.40	2.60	2.40	3.50	1.20	0.90	1.10	1.80	1.70	1.20	1.20	1.20	1.20	1.30
United Kingdom	-5.50	21.40	8.50	3.80	6.80	2.70	2.60	1.80	1.50	4.50	0.90	0.30	0.70	1.10	1.10
<b>Real GDP level (Indexed at 4Q19=100)</b>															
United States	99.11	101.86	103.55	105.02	-	106.03	106.97	107.79	108.57	-	109.37	110.18	110.97	111.77	-
Eurozone	94.46	95.80	97.61	98.88	-	99.57	100.06	100.53	100.93	-	101.38	101.79	102.12	102.47	-
Japan	99.02	99.61	100.25	100.85	-	101.15	101.38	101.65	102.11	-	102.41	102.72	103.03	103.33	-
United Kingdom	91.39	95.93	97.91	98.83	-	99.49	100.13	100.58	100.95	-	101.18	101.25	101.43	101.71	-
EUR/USD	1.18	1.22	1.25	1.28	-	1.28	1.25	1.23	1.22	-	1.22	1.21	1.20	1.20	-
US 10-year yield (%)	1.74	2.00	2.00	2.25	-	2.25	2.50	2.50	2.75	-	2.75	3.00	3.00	3.00	-
<b>Scenario 3: Pessimistic scenario</b>															
<b>Real GDP growth (QoQ% annualised)</b>															
United States	6.40	9.70	6.60	-2.90	6.10	-0.50	7.20	6.00	4.50	3.10	3.60	3.20	3.10	3.10	4.10
Eurozone	-2.40	3.40	5.60	0.20	2.90	-0.30	3.50	3.10	2.20	2.00	2.00	2.40	2.40	2.40	2.40
China (YoY%)	3.00	4.00	3.00	1.00	2.80	3.00	5.00	6.00	6.00	5.00	6.00	5.80	5.50	5.80	5.78
Japan	0.20	2.40	2.40	-0.70	3.30	0.80	1.20	0.70	0.90	0.90	0.80	1.20	1.20	1.20	1.00
United Kingdom	-7.10	18.30	7.20	-1.60	5.30	1.90	1.70	2.10	2.30	2.80	1.40	0.60	0.70	1.20	1.40
<b>Real GDP level (Indexed at 4Q19=100)</b>															
United States	99.11	101.43	103.06	102.31	-	102.18	103.97	105.50	106.66	-	107.61	108.46	109.29	110.13	-
Eurozone	94.46	95.25	96.56	96.60	-	96.53	97.36	98.11	98.65	-	99.14	99.72	100.32	100.91	-
Japan	99.02	99.61	100.20	100.03	-	100.23	100.53	100.70	100.93	-	101.13	101.43	101.73	102.04	-
United Kingdom	91.01	94.91	96.57	96.19	-	96.64	97.05	97.55	98.11	-	98.45	98.60	98.77	99.07	-
EUR/USD	1.18	1.10	1.12	1.13	-	1.15	1.17	1.18	1.20	-	1.21	1.22	1.23	1.25	-
US 10-year yield (%)	1.74	1.50	1.75	0.75	-	1.00	1.00	1.25	1.25	-	1.25	1.25	1.25	1.25	-

Source: ING. Note most growth forecasts rounded to nearest whole or half number)

\*Scenario two is our current base case for China

**GDP forecasts**

(%YoY)	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
World (USD)	3.9	10.8	4.7	4.7	5.9	4.2	3.4
US	0.4	13.4	7.2	7.6	7.0	4.9	3.0
Japan	-0.7	9.2	4.2	1.9	3.5	1.7	1.3
Germany	-3.5	9.5	3.5	5.1	3.5	5.0	1.7
France	1.5	17.7	1.3	3.6	5.6	3.0	1.6
UK	-6.0	22.6	7.0	6.6	6.8	4.4	1.1
Italy	-1.6	14.2	0.4	3.7	3.8	3.9	2.4
Canada	0.1	14.4	6.6	5.2	6.3	4.1	2.3
Australia	0.3	8.6	5.6	3.3	4.4	2.6	2.6
New Zealand	2.9	14.1	0.5	2.6	4.7	2.6	2.6
Eurozone	-1.8	12.6	2.0	4.0	4.0	3.7	1.7
Austria	-2.7	11.0	1.7	2.5	3.1	3.5	2.5
Spain	-4.3	17.6	2.9	5.5	5.0	6.0	2.0
Netherlands	-1.9	8.7	2.5	3.5	3.2	2.9	1.6
Belgium	-1.1	12.8	2.3	3.1	4.0	2.8	2.0
Ireland	2.9	7.3	-2.1	3.9	2.9	3.7	2.3
Greece	-8.7	7.1	8.0	8.0	3.2	4.8	2.3
Portugal	-5.4	14.2	3.3	5.1	4.0	5.0	1.7
Switzerland	-0.3	8.3	1.9	2.3	3.0	2.5	1.3
Sweden	-0.9	8.2	2.3	3.0	3.0	2.2	1.3
Norway	0.3	8.0	3.6	2.4	3.5	2.5	1.5
Bulgaria	-3.3	8.6	5.6	4.6	4.1	3.9	3.0
Croatia	-5.5	13.5	6.4	4.2	4.6	4.1	4.0
Czech Republic	-2.12	8.27	2.91	3.33	3.10	4.06	3.0
Hungary	-5.0	15.6	5.5	5.6	5.4	6.0	4.5
Poland	-0.90	9.60	4.40	6.00	4.80	5.00	5.20
Romania	-1.8	12.4	7.5	3.9	5.5	5.0	4.5
Turkey	4.8	15.2	-0.1	0.6	4.5	4.0	4.0
Serbia	1.2	13.0	6.5	5.6	6.5	5.0	5.0
Russia	-0.5	6.0	3.0	1.5	2.5	2.2	3.0
Kazakhstan	0.8	3.1	3.1	2.4	3.2	3.7	4.0
Ukraine	-1.5	10.2	4.2	4.4	4.3	4.2	4.0
Azerbaijan	1.0	2.2	1.9	2.5	2.7	2.1	2.5
China	18.3	5.5	5.0	5.5	8.6	4.6	4.5
Hong Kong	7.80	5.00	2.50	3.00	4.60	2.30	3.00
India	1.7	19.7	5.9	3.7	7.8	6.1	6.4
Indonesia	-0.7	7.6	5.0	4.0	3.9	4.3	5.0
Korea	1.8	5.5	3.9	3.2	3.6	2.6	3.2
Malaysia	-2.5	16.7	3.7	5.0	5.3	4.3	4.6
Philippines	-3.5	12.5	5.8	5.0	4.9	4.2	4.5
Singapore	0.20	14.20	4.80	1.50	4.90	3.20	3.4
Taiwan	8.2	6.1	2.8	2.7	4.9	2.3	3.5
Thailand	-2.80	6.20	2.30	3.50	2.10	3.10	3.00

Source: ING estimates



**CPI forecasts (pa)**

(%YoY)	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
World	1.8	2.9	2.9	3.2	2.2	2.7	2.6
US	1.9	4.1	3.7	3.8	3.4	2.9	2.6
Japan	-0.4	-0.2	0.0	0.7	0.0	0.7	0.6
Germany	1.8	2.1	3.0	3.5	2.7	1.3	1.7
France	0.7	1.6	1.9	1.5	1.4	1.4	1.3
UK	0.6	1.7	1.8	2.2	1.6	1.9	1.7
Italy	0.8	1.2	1.5	1.3	1.2	1.2	1.3
Canada	1.4	2.9	2.9	2.9	2.5	2.5	2.2
Australia	0.9	3.5	2.6	2.3	2.3	2.3	2.5
New Zealand	1.5	2.6	2.5	2.5	2.3	2.1	2.2
Eurozone	1.0	1.7	2.2	2.0	1.7	1.6	1.6
Austria	1.5	2.1	1.9	1.7	1.8	1.7	1.7
Spain	0.5	1.7	1.5	1.7	1.4	1.7	1.7
Netherlands	1.9	2.1	1.7	1.8	1.8	1.5	1.5
Belgium	1.1	2.5	1.8	1.9	1.8	1.7	1.8
Ireland	-0.1	1.3	2.1	2.1	1.4	1.5	1.6
Greece	-2.1	-0.8	0.7	0.7	-0.4	0.8	0.8
Portugal	0.2	1.2	1.5	1.7	1.2	1.7	1.7
Switzerland	-0.4	0.6	1.0	0.5	0.4	0.6	1.3
Sweden	1.7	2.1	1.7	1.7	1.6	1.4	1.4
Norway	3.0	3.1	3.0	3.3	3.1	2.2	2.0
Bulgaria	0.4	1.6	2.7	2.6	1.8	2.5	2.5
Croatia	0.4	1.7	1.3	1.8	1.3	1.3	2.0
Czech Republic	2.4	2.4	2.5	2.9	2.2	1.9	2.4
Hungary	3.2	4.9	3.9	4.4	4.1	3.1	3.2
Poland	2.7	4.3	4.1	4.4	3.9	3.4	3.2
Romania	3.1	3.0	2.7	3.3	3.3	2.8	2.5
Turkey	16.2	16.5	16.4	14.0	15.9	12.0	9.9
Serbia	1.4	2.2	1.9	2.4	2.0	2.3	3.0
Russia	5.8	5.5	5.5	4.5	5.3	4.1	5.1
Kazakhstan	7.0	6.5	6.5	6.1	6.7	6.1	5.5
Ukraine	8.5	9.5	9.2	7.5	8.7	6.0	5.0
Azerbaijan	3.3	3.6	4.5	4.2	3.7	3.0	3.5
China	-0.1	1.0	1.4	2.5	1.2	2.4	2.0
Hong Kong	0.9	1.0	2.4	3.5	2.0	2.4	2.5
India	4.9	5.8	5.5	5.7	5.8	5.3	5.1
Indonesia	1.7	2.5	2.6	2.9	2.4	3.3	3.2
Korea	1.1	2.6	2.5	2.8	2.3	1.8	1.7
Malaysia	0.5	3.6	2.3	1.6	2.0	1.5	1.7
Philippines	4.5	4.5	4.8	3.6	4.0	3.0	3.4
Singapore	0.8	1.8	1.4	1.3	1.3	1.1	1.3
Taiwan	0.8	1.6	1.7	1.4	1.4	1.5	2.0
Thailand	-0.5	2.6	1.6	1.5	1.3	1.1	1.5

Source: ING estimates

**Oil forecasts (avg)**

\$/bbl	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
Brent	62	67	70	70	67	70	75

Source: ING estimates

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